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SUBJECT: TFIZ01: NIGERIA ENERGY UPDATE, March 31

REFS: A: Abuja 558
B: Lagos 624
C: Lagos 568
D: Abuja 555
E: Lagos 499

1. (U) This update includes:

-- When Will the Oil Flow? Delta Crisis Update

-- Running on Empty: Refineries, Power Company and
Consumers Face Same Plight

-- Deep Water Deals: Joint Development Zone Advances

When Will the Oil Flow? Delta Crisis Update

2. (U) Although the violence that has wracked the Escravos region of the Niger Delta the last two weeks appears to have subsided, oil companies remain hesitant to return their employees to facilities in the swamps. This situation is causing Nigeria's crude oil production to be at least 800,000 barrels per day (bpd) below normal(ref A). The DOE's Energy Information Administration (EIA) has put the loss as high as 900,000 bpd. Unconfirmed reports indicate that Shell has told its customers that it may delay loading of crude oil from the region through May.

3. (SBU) A ChevronTexaco representative told Econoff March 31 that the company has left a very small care and maintenance crew in place at the tank farm in Escravos, and will decide within the next two or three days if it is safe to begin re-staffing the facility. After such a decision is made, the company will ship food, supplies and fuel to the facility in advance of workers. The representative admits the pressure to reopen operations is enormous, and personally discounts reports that ChevronTexaco or Shell Oil will wait until after the elections to start lifting from the region again. Officials from both companies have said they would need specific assurances that their people would be safe before returning them to the Delta. In a separate conversation, the Dutch Consul General told the ConGen that Shell is demanding those assurances from the highest levels of the Nigerian government and from leaders of the warring communities in the Niger Delta.

4. (SBU) Our ChevronTexaco contact also reported March 31 that calm has been restored in the area for several days, as both federal and state government officials negotiate with Ijaw representatives over ways to keep the peace. Our contact said the federal government deployed additional troops to maintain order, but the facilities to maintain and transport the troops are so poor that this fact causes problems. Because the oil companies are sometimes asked to assist with lodging and moving troops, they fear they may appear complicit in military operations.

5. (U) According to a Reuters dispatch, Delta State governor James Ibori attributes the recent attacks on Itsekiri villages by militant Ijaws to a government effort to check illegal oil bunkering. Ibori reportedly claimed that prominent persons employ local

youths to tap into oil pipelines and siphon products for sale on the black market. Shell Oil is particularly vulnerable to such practices as it utilizes an extensive aboveground oil pipeline network. Other reports indicate that the violence broke out after an Ijaw ultimatum for redrawing electoral wards expired, after which armed youths blockading the Escravos River exchanged gunfire with military and police forces escorting vessels through the waterways (refs B, C).

16. (U) Comment: While it appears that the situation in the swamps between Warri and Escravos has been calm for four or five days, the oil companies will not rush to return their workers to the region without greater assurances of safety and restoration of relative peace. Some Ijaw leaders have indicated a willingness to cease hostilities if the military refrains from retaliation against Ijaw villages. But othe Ijas arecalling for mass action to disrupt national elecions scheduled to begin in two weeks, including ttacks against oil facilities, which so far have enerally been spared in the ethnic clashes. Whie the military forces initially appeared unwilling to egage or pursue the Ijaw militants (ref D) President Obasanjo declared that he will bring o justice the persons responsible for the conflict and for the death of military personnel. The ucertainty of the likely courses of action by theplayers creates a precarious security situation in the region. The oil companies will carefully weigh the risk of renewed violence against the need to move oil out of the Delta facilities. Predicting how soon oil flows will return to normal remains as difficult as predicting the likelihood that peace will last in the Delta. End comment.

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Running on Empty: Refineries, Power Company and
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17. (SBU) Recent clashes in the Delta have highlighted Nigeria's woefully inadequate refining capacity. According to a Chevron-Texaco representative, the closure of that company's Escravos transfer station and tank farm effectively shut down the government's refinery at Warri, as it and the refinery at Kaduna began running on their reserves sometime last week. Meanwhile, Nigerian National Petroleum Corporation (NNPC) reported that it was forced to cut power to much of Lagos last week when a gas feeder pipeline that fuels the Egbin power plant was vandalized. While Nigeria's aggregate refining capacity is 445,000 bpd in theory, chronic maintenance problems plague Nigeria's four refineries. Consequently, Nigeria imports almost half of the refined petroleum products it consumes.

18. (U) Last month, in response to worldwideincreases in the market price of refined petroleum products, suppliers diverted Nigeria's expected imports to higher paying customers. This action caused a massive fuel shortage and gasoline queues not seen since Nigeria returned to democratic rule three years ago (ref E). Although the Managing Director of NNPC reportedly claims there is no fuel shortage, gas lines and power outages continue. Angry consumers accuse filling station owners of employing street boys to extort extra money from consumers waiting in line to buy fuel. The Managing Director of Mobil Oil told the ConGen that although his station managers control the forecourts, the queues of cars that stretch for blocks belong to opportunistic thugs selling places in line. With no reprieve in sight, black market fuel sellers are becoming increasingly prolific throughout urban areas like Lagos as consumers scramble to keep their cars running and their back-up generators for homes and businesses humming.

19. (U) About two weeks ago at a meeting called by the NNPC, executives of the major downstream operators said they would not re-enter the fuel importation business unless the government allows for import price parity. The federal government sets the maximum price that can be charged at the pump for fuel. The company executives said that to cover their costs, they would need to charge 37 naira per liter of gasoline, well above the current 26-naira pump price. Consequently, the NNPC remains essentially the sole importer of fuel. One daily paper reported last week that the NNPC lost 52.4 billion naira (\$416 million) on fuel imports in the first nine months of 2002.

10. (U) Comment. The ongoing fuel shortage and recent trouble in the Delta have focused new light on the utter inefficiency of Nigeria's oil refineries. The crises have also rekindled discussion of the possible sale of these government owned enterprises to private downstream operators, which might then establish import price parity (ref E). Since the national elections are only a few weeks away, we will not likely see any movement in this direction. The industry unions vociferously oppose privatization, and no government leader will want to be responsible for a 43 percent increase in consumer pump prices. End comment.

Deep Water Deals: Joint Development Zone Advances

11. (U) Nigeria and Sao Tome and Principe are moving closer to developing resources in the Joint Development Zone (JDZ) established in the waters of the Gulf of Guinea. The treaty establishing the JDZ was signed in 2001, but disagreements over details of the treaty and an accompanying memorandum of understanding stalled progress last year.

12. (U) Estimates of the total crude oil reserves in the zone range from six to ten billion barrels. The treaty calls for the two countries to share most revenue from the zone on a 60/40 split in favor of Nigeria, but it must provide additional concessions to Sao Tome and Principe in exchange for total rights over the most prolific exploration bloc. Last year, Sao Tome President Fradique de Menezes expressed dissatisfaction with the terms of the MOU and what he felt was Nigeria's slow fulfillment of other pledges. These disagreements were apparently resolved in February of this year, and seismic and exploration agreements are being renegotiated. It is expected that nine blocs will be offered when the countries' negotiators approve a licensing round anticipated in the coming months. We understand that ExxonMobil has secured a preferential oil bloc through negotiations with Sao Tome and Principe. A representative of a Nigerian firm, Chrome Energy and its Houston-based subsidiary Environmental Remediation Holding Corporation, told Econ staff two weeks ago that his company is moving forward with exploration in the zone (septel to follow).

HINSON-JONES